

National Records of Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for National Records of Scotland and the Auditor General for Scotland
3 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2017/18 annual report and accounts

- 1** In our opinion the financial statements of National Records of Scotland (NRS) give a true and fair view of the financial position and their net expenditure; and the expenditure and income were incurred or applied in accordance with applicable enactments and guidance.
- 2** The other information in the annual report and accounts was consistent with the financial statements and prepared in accordance with the accounts direction.

Financial management

- 3** We concluded that NRS have adequate financial planning arrangements in place, but should ensure capacity and staffing levels are appropriate to utilise their full funding allocation and deliver key programmes.
- 4** Systems of internal control operated effectively in 2017/18.

Financial sustainability

- 5** There are no significant concerns about the overall financial position of NRS.
- 6** To promote best practice, NRS may wish to consider expanding their financial forecasts up to a 5-year period (currently NRS focus on a 3-year period).

Governance and transparency

- 7** We concluded that NRS have adequate governance arrangements in place.
- 8** NRS is open and transparent in the way it conducts their business but with some scope for improvement.
- 9** NRS IT Services has undergone an external review and are taking remedial action to actively strengthen its IT infrastructure and cyber resilience arrangements.

Value for money

- 10** NRS have an adequate performance management framework in place, but with scope to develop performance indicators to improve reporting of activities to Board members.

Introduction

1. This report summarises the findings from our 2017/18 audit of National Records of Scotland (referred to as NRS throughout).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- an interim audit of the National Records of Scotland's main financial systems and governance arrangements
- an audit of NRS' 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NRS' arrangements in relation to the audit dimensions noted above. This report is structured to cover our assessment of each of these dimensions.

4. National Records of Scotland is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the organisation to successfully deliver its objectives.

5. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

7. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £63,400 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. Our aim is to add value to NRS by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

11. This report is addressed to both NRS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk after the annual report and accounts have been laid before the Scottish Parliament.

12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

The financial statements of NRS for 2017/18 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

13. The annual report and accounts for the year ended 31 March 2018 are due to be approved by the Audit and Risk Committee on 3 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view of the state of the body's affairs and of its net expenditure for the year
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

14. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 26 June 2018 in line with our agreed audit timetable.

16. The working papers provided with the unaudited financial statements were of a high standard and finance staff provided good support to the audit team which helped ensure the audit process ran smoothly.

Risk of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

18. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

19. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. This based materiality on 1% of gross budgeted expenditure for 2017/18. Specifically, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that the methodology remained appropriate. Materiality values have been adjusted slightly based on the actual gross expenditure incurred in 2017/18, as summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£310,000
Performance materiality	£230,000
Reporting threshold	£10,000

Source: Audit Scotland

Evaluation of misstatements

21. It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

22. There was one adjustment required to the unaudited financial statements arising from our audit, which was above our reporting threshold. This adjustment of £220,000 related to an invoice for services received in the first quarter of 2018/19. This had been incorrectly recognised in the 2017/18 financial year as both a trade receivable (prepayment) and a trade payable, as no payment had been made in 2017/18 and the services related to 2018/19. Therefore, both the payable and receivable entries required to be reversed, with no overall impact on the balance sheet. This misstatement has now been correctly amended in the audited financial statements.

23. There were no unadjusted misstatements arising from our audit of the financial statements.

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

25. These findings include our views about significant qualitative aspects of NRS' accounting practices including:

- | | |
|---|--|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure. |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Accounting for non-current assets</p> <p>NRS use the Scottish Government system 'NCAR' (Non-Current Asset Register) to record its assets and to apply depreciation and revaluations to these assets. Our review of non-current assets and the NCAR system this year found the following issues:</p> <ul style="list-style-type: none"> • Our recalculation of depreciation charges found several differences in the depreciation charges recorded on NCAR, for assets recorded in the same category of assets. Individually, these differences were under our reporting threshold. Depreciation charges should be consistently applied for assets in the same category as useful lives should be consistent. • We also identified instances where, for a small number of assets, their useful lives (and therefore depreciation charges) started from when they were first recorded as assets under construction. Depreciation should only be applied when assets become fully operational. • With the exception of land and buildings, we found that no formal impairment review had been undertaken for other classes of non-current assets in 2017/18. 	<p>We acknowledge work done by the finance team in 2017/18 to carry out a full asset verification check and to update its asset register.</p> <p>We also acknowledge that NRS are required to use NCAR and have little influence over its configuration. However, manual corrections are possible.</p> <p>We advise the finance team to continue with their review of the NRS asset register, to ensure depreciation charges and valuation of assets are appropriately and consistently applied.</p> <p>We would also advise all material non-current assets to be considered for impairment each year as part of the year-end accounting process, and document this review going forward.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>

Issue	Resolution
<p>2. Heritage assets</p> <p>NRS in recent years have recognised a category of assets as ‘antiques and works of art’. On review of assets in this category (value of £2.1 million as at 31 March 2018), we have judged these assets to meet the characteristics of heritage assets as set out in the FReM. Management agreed with us and the annual report and accounts were amended to include the additional disclosures required for heritage assets, including updating the relevant accounting policies. This did not result in any changes to the figures in the accounts.</p>	<p>We are satisfied with the amendments made to the annual report and accounts to re-categorise these items as heritage assets.</p> <p>It is common for other National collection bodies to maintain a fixed asset register, and then a separate register for heritage assets. We advise management to consider this approach to clearly separate heritage assets from other tangible non-current assets during the year-end accounting process, and to ensure heritage assets are disclosed separately in the accounts.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Contingent liabilities</p> <p>There are two new contingent liabilities disclosed in the NRS annual report and accounts this year:</p> <ul style="list-style-type: none"> • The first relates to proceedings raised by a third party for a contract awarded by NRS in 2017/18. Information received by legal advisors since this summons was raised has now confirmed no further proceedings will be taken by the third party. No further action is required. • The second contingent liability relates to the leased buildings occupied by NRS. The lease arrangements require NRS to maintain the buildings and restore the premises to a specific condition on termination of the leases. There is therefore a possible obligation for NRS to make payments for works required at the end of the leases. The disclosure notes a value cannot be estimated for this contingent liability at this stage. 	<p>We acknowledge these disclosures in the accounts as good practice to fully record NRS’ potential obligations.</p> <p>We advise management to consider the leases contingent liability in further detail, specifically when NRS are near the end of any of their lease arrangements. There is the potential for this contingent liability to be recognised as a provision in future accounting years, if the liability becomes more certain for restoration works required. NRS should ensure they provide a sufficient amount by the end of any lease term.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>4. Performance indicators</p> <p>We reported last year as part of our ‘Role of the Board’ governance review, that NRS would benefit from using Key Performance Indicators (KPIs) to benchmark its performance against target levels and objectives. Management advised this would be considered as part of the governance re-structure in 2017/18. However, formal KPIs are still not widely used.</p> <p>This impacts on the quality of the Performance Report in the annual report and accounts, where performance and activities for the year are set out, but it is unclear how to gauge this performance with the absence of benchmarks or set targets.</p> <p>The FReM requires a Performance Report to include <i>‘what the body sees as its key performance measures, how it checks performance against those measures and narrative to explain the link between KPIs, risk and uncertainty’</i>.</p>	<p>We advise management to implement clear performance indicators to enhance NRS’ performance framework. These indicators could be linked to the overall NRS strategy and objectives. KPIs could then be reported regularly the Executive Management Board and/r Strategic Board to scrutinise performance of the organisation.</p> <p>The Performance Report in the annual report and accounts could be revised next year to ensure full compliance with FReM requirements.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>

Follow up of prior year recommendations

26. We have followed up actions agreed in 2016/17 to assess progress with their implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

27. 5 agreed actions were raised in 2016/17. Of these:

- 2 points have been fully implemented
- 2 points have been partly actioned
- 1 point has been superseded by a new recommendation this year.

28. Overall NRS has made progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

NRS have adequate financial planning arrangements in place, but should ensure capacity and staffing levels are appropriate to utilise their full funding allocation and deliver key programmes.

Systems of internal control operated effectively in 2017/18.

Financial performance in 2017/18

29. The main financial objective for NRS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

30. NRS have reported a net resource outturn of £24.701 million (including depreciation) remaining within its overall budget for 2017/18 with an underspend of £2.838 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 4

Performance against DEL in 2017/18

Performance	Draft budget 2017/18 £m	Final budget 2017/18 £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL (includes depreciation)	34.040	27.539	24.701	(2.838)
Capital DEL	3.300	2.300	1.646	(0.654)
Total DEL	37.340	29.839	26.347	(3.492)

Source: NRS Annual Report and Accounts 2017-18

31. The main reasons for the £2.838 million underspend against resource DEL were:

- Income received from the ScotlandsPeople website has continued to exceed expectations by £740,000 in 2017/18. Management have advised that income from these services is demand-led and therefore difficult to forecast.
- There was an underspend on the Census 2021 programme of approximately £1 million. This was due to the timing of agreeing supplier contracts at the

end of the financial year, which meant some 2017/18 planned expenditure slipped into the 2018/19 financial year.

- NRS continue to carry a number of vacancies for posts which require specialist skills. Delays in filling posts have contributed to the budget underspend, and have affected the progress of NRS activities and programmes.
- A further £312,000 underspend was reported on NRS' depreciation allocation from the Scottish Government.

32. The underspend of £654,000 against capital DEL is due to two main factors: savings of £340,000 were made on IT services after an exercise to re-evaluate procurement and delivery methods. The remaining underspend is a result of slippage in IT and Estates capital investments.

33. The 2017/18 net resource outturn has increased by £1.788 million since last year. Additional expenditure this year relates mainly to an increase in staff costs, as the organisation continue to expand in the lead up to the Census in 2021. There was, however, a notable underspend of £2.838 million against budget this year as detailed above. Management should ensure they have the capacity to deliver on their key programmes and utilise their full budget allocation for the year ahead, or risk funding reductions in future years and slippage in delivery of programmes.

Budgetary processes

34. We reviewed NRS' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

35. We concluded that NRS have adequate budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of NRS' finances.

Systems of internal control

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NRS have systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

37. Our findings were included in the management letter we presented to the Audit and Risk Committee on 22 May 2018. We concluded that appropriate and effective internal controls were in place for the key financial systems reviewed by us. No significant internal control weaknesses were identified during the audit which could affect NRS' ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Financial capacity

38. There have been no significant changes to the NRS finance team during 2017/18. We are satisfied that team members are experienced in their roles and have appropriate qualifications and experience to support NRS effectively.

Part 3

Financial sustainability



Main judgements

There are no significant concerns about the overall financial position of NRS.

To promote best practice, NRS may wish to consider expanding their financial forecasts up to a 5-year period.

Financial planning

39. The NRS draft budget for 2018/19 was proposed in Scotland's Spending Plans and Draft Budget 2018-19, published by the Scottish Government in December 2017. This set out NRS' draft resource allocation for 2018/19 of £37.2 million, which is £0.1 million less than the initial 2017/18 budget allocation.

40. The organisation's priorities for 2018/19 will continue to focus on developing its digital services and progressing with work on the 2021 Census. NRS intend to build on the delivery of the first elements of its Digital Preservation service last year by beginning to automate the process of preservation, a step towards its ambition of a fully automated digital preservation and archive capability. NRS also plan to continue providing statistical information on Scotland's demographics, as well as the ScotlandsPeople online family history service¹.

41. In summary, the 2018/19 budget is split as follows:

- £40.1 million is for operational costs. This includes support for the Census and the Digital Preservation programmes, with allocations split £11.6 million in resource and £0.4 million in capital spending.
- £2.9 million is for capital expenditure. This consists of £1.2 million for IT investment and £1.7 million for Estates work.
- £5.8 million is then deducted from this expenditure to reach the net budget allocation. This relates to forecast retained income (income generated by NRS in addition to Scottish Government funding). This will mainly consist of NRS' income from services from the ScotlandsPeople website, charges for access to records, and income from the NHS Central Register contract.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

2017/18 financial position

42. The Statement of Financial Position summarises what is owned and owed by NRS. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

¹ Scottish Budget: Draft Budget 2018-19, Scottish Government, published December 2017

43. The financial statements show that NRS has net assets of £25.301million, a slight decrease of £0.430 million to last year. This is largely attributable to an increase in trade payables as at 31 March 2018 (which lowers net assets), due to higher expenditure owed at year for payments related to the Census programme.

44. We reported last year an increase in temporary staff costs in 2016/17 (total costs £4.720 million) and that this may not be sustainable. Temporary staff costs have reduced slightly this year to £4.630 million. This figure remains high for an organisation of NRS' size, with temporary staff costs accounting for 24% of overall staff costs of £19.321 million. As previously noted, NRS continue to face challenges recruiting for specialist skills and require high cost contractors in areas such as ICT to fill vacancies.

45. NRS reported efficiency savings of £1.767 million against a target of £1 million in 2017/18. The main elements of these savings were:

- £624,000 savings from procurement activity leading to reduced costs
- £540,000 savings generated from review of IT delivery methods
- £300,000 estimated payroll savings.

Quality of financial reporting

46. A finance report is presented by the Chief Finance Officer regularly to both the Executive Management Board and Audit and Risk Committee (ARC). From our review of ARC and Board papers and attendance at ARC meetings, we confirm that these papers are fully discussed and scrutinised.

47. The finance reports provide information on the financial performance against budget to date and forecasts outturn. Reports are transparent, timely and clear, and support effective scrutiny of the financial management process. We are satisfied these reports provide sufficient information and that figures reported are consistent with the year-end position.

Medium to long term financial planning

48. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

49. We recognise that NRS are mainly funded from the Scottish Government (SG) budget allocation (78% of total income in 2017/18) and this is determined on an annual basis by the SG. This should not preclude NRS from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

50. The 2018/19 budget sets out efficiency savings which need to be achieved to balance the budget. During 2018/19, NRS aim to achieve efficiencies of £1.154 million² across a number of directorates. This target is approximately 3% of total resource spending, which is an expected target set by the Scottish Government for public sector bodies to achieve each year.

51. NRS are targeting efficiencies in a number of areas, including optimising the use of permanent staff, reducing the use of agency staff and contract staff via a new Resourcing Strategy, examining uncommitted recurring expenditure on goods and services, and generating further procurement savings.

² Draft Budget 2018-19 – Provisional NRS Allocation, Executive Management Board paper, March 2018

52. We raised a recommendation in our 2016/17 Annual Audit Report that NRS has scope to develop its savings plans for the coming financial years. In 2017/18, NRS carried out a financial planning exercise to estimate recurring and non-recurring pressure to be met by savings over a three-year period (2017/18 - 2019/20). This was followed up by a further analysis of savings opportunities in the 2018/19 budget paper as commented on above.

53. In an effort to promote best practice, NRS may wish to consider expanding their budget forecasts up to a 5-year period including scenario planning, which some other public sector organisations are forecasting at a high level. Management have advised that NRS will be refreshing and building on their financial forecasts through a more detailed analysis in the coming months. We will monitor this work as part of our 2018/19 audit.

54. We conclude that NRS have made good progress developing their financial projections for the coming financial years. The achievement of efficiency savings will help ensure NRS achieves financial balance and ensure best value. From NRS forecasts it can be seen that the organisation, like many public sector bodies, faces financial challenges. However, the financial position of NRS remains stable at this time.

2021 Census Update

55. NRS continues to progress with the 2021 Census Programme. The Census will take place on 21 March 2021. In addition to Census Day in 2021, NRS will undertake a large-scale dress rehearsal in October 2019. The rehearsal is an essential element of the overall programme of testing which builds over time to deliver overall confidence in the operational readiness for the Census in 2021.

56. Recent activity on the Programme includes the following:

- **Funding:** Management have agreed a long-term funding package with the Scottish Government. NRS will receive funding of circa £86 million for financial years 2018/19 to 2023/24 i.e. over the remaining life cycle of the Census project.
- **Procurement:** Several elements of the Programme require to be sourced externally and a portfolio of procurement activities have progressed in 2017/18. This includes agreement of two key contracts for the provision of the online collection instrument (OCI) and the data collection operational management system (DCOMS).
- **Assurance:** NRS are working with the Technology Assurance Framework (TAF) in line with guidance from the Scottish Government. This Framework ensures that all systems and services are tested and working effectively before they go live.
- **Legislation:** There is a strong legislative element to providing the Census, with a Bill to be laid in Parliament in October 2018 in order to amend the 1920 Census Act. This is to allow several new census questions on personal information to be asked on an explicitly voluntary basis.

57. We will continue to monitor the governance arrangements and financial management for this Programme as it progresses.

EU withdrawal

58. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

Part 4

Governance and transparency



Main judgements

NRS have effective governance arrangements in place that support scrutiny of decisions made by the board.

NRS is open and transparent in the way it conducts their business but with some scope for improvement.

NRS IT Services has undergone an external review and are taking remedial action to actively strengthen its IT infrastructure and cyber resilience arrangements.

Governance arrangements

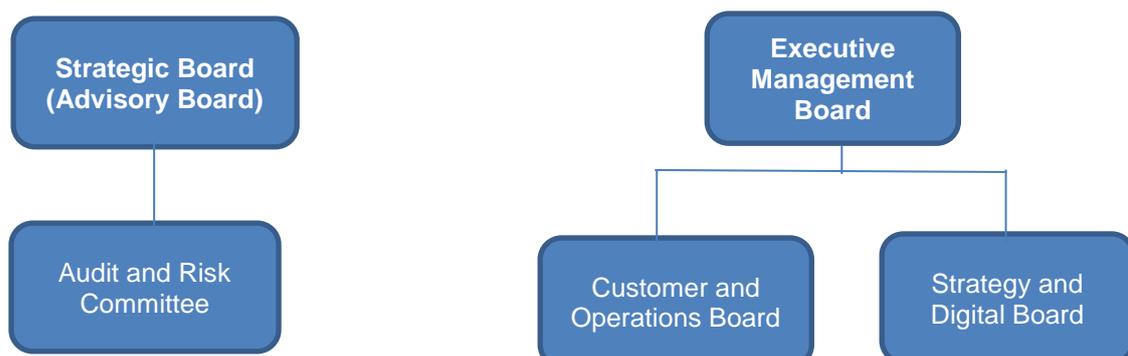
59. NRS is a Non-Ministerial Department within the Scottish Administration. NRS' purpose is to collect, preserve and produce information about Scotland's people and history and make it available to inform current and future generations. The Chief Executive fulfils two non-ministerial positions as Registrar General for Scotland and the Keeper of Records of Scotland

60. The NRS governance structure changed in 2017/18. From January 2018, the Management Board became known as the Strategic Board, to better reflect its role in NRS. The Corporate Leadership Group and Business Leadership Group disbanded, and the Executive Management Board (EMB) was created. The EMB has taken on responsibility for setting the strategic framework for NRS and overseeing its activities and operations. In 2018/19, two further boards, the Strategy and Digital Board and the Customer and Operation Board, will be established to support the EMB. The new structure is summarised in [Exhibit 5](#).

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Exhibit 5

NRS governance structure (since January 2018)



61. The Strategic Board comprises the Chief Executive (who Chairs the meetings), five Non-Executive Directors, and four NRS Directors. The Strategic Board provides overarching governance and is responsible for ensuring the organisation meets its objectives through a balanced portfolio. The Board advises the Chief Executive on the strategic direction of NRS.

62. The remit and composition of the Audit and Risk Committee (ARC) has remained the same. The ARC supports the Accountable Officer (the Chief Finance Officer) with regards to the efficient and effective use of income and expenditure and his responsibilities regarding risk, control, governance and assurance. Both the ARC and the Strategic Board are supported by Non-Executive Directors as members. The ARC membership does not include NRS Executive officers, although they regularly attend to present papers and reports.

63. From our attendance at ARC meetings throughout the year, we note that committee papers are well prepared in advance of each meeting, and sufficient time is made available at each meeting to allow appropriate discussion of each item on the agenda. Committee members are well-prepared and provide effective scrutiny to NRS officers and auditors in attendance.

64. We conclude that the NRS Audit and Risk Committee is currently applying appropriate and effective governance.

Management changes

65. We note there have been some further changes to NRS senior management this year, summarised as follows:

- The Chief Executive (who also holds the positions of Registrar General and the Keeper of the Records of Scotland) left the organisation in April 2018, after a five-year period.
- The NRS Head of Public Services has been appointed as the Acting Chief Executive since April 2018. The permanent position is appointed by Scottish Ministers and recruitment is underway.
- A new Director of IT Services has been in post since October 2017.
- The NRS Change Programme Manager and NRS Chief Finance Officer joined the new Executive Management Board in January 2018.

Transparency

66. Transparency means that the public have access to understandable, relevant and timely information about how NRS is making decisions and how it is using resources such as money, people and assets.

67. The NRS Strategic Board holds its meeting in private. Board minutes and Audit and Risk Committee minutes are published on the NRS website which promotes transparency of its activities. However, management have decided not to publish agendas and papers of these meetings.

68. We would recommend NRS refresh the 'Corporate Governance' section of their website to reflect the new governance structure, terms of reference of the boards and changes in senior management. We also recommended last year NRS should publish a Register of Interests for its board members and senior officers on the website. This point remains outstanding.



Refer to Appendix 1, Recommendation 5.

69. Another tool used to engage with the public is NRS' Complaints Procedure. This procedure is available to members of the public on the website. There is a dedicated Complaints mailbox overseen by the Chief Executive's Office which is checked daily. From review of the information on the website and complaints procedure, NRS have an effective system in place. Reference is also made to the Scottish Public Services Ombudsman (SPSO), should members of the public be dissatisfied with NRS' handling of their complaint.

70. We concluded that NRS conducts its business in an open and transparent manner but there are some areas which could be improved.

Risk management

71. We have reviewed NRS' risk management framework in place. This framework assists NRS to apply a consistent approach to identify and manage threats and opportunities associated with delivering strategic objectives. The framework allocates responsibilities within the NRS corporate governance structure as follows:

- The Management Board (and subsequently the Strategic Board) has overall responsibility for reviewing and monitoring strategic risk, and risks across NRS' portfolio of activities.
- The new Executive Management Board has taken on responsibility for managing operational risk and receives regular reports from managers on the status of operational risks.
- The Audit and Risk Committee also scrutinise the risks of the organisation at each meeting. This is done by reviewing the Strategic Risk Register which is regularly updated by NRS officers.

72. We have concluded that appropriate risk management arrangements are in place. The related policies and procedures, including the regular update of risk registers, have been deemed to be comprehensive for NRS.

Internal audit

73. NRS' internal audit function is carried out by the Scottish Government Internal Audit Directorate (IAD). Each year we consider internal audit work to avoid duplication of effort. We carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). Our SG external audit team have completed a central review of the Scottish Government's Internal Audit Directorate.

74. The review concluded that internal audit meets some PSIAS, but also does not comply with significant aspects of the standards. Improvements are required to meet both PSIAS and the Scottish Government's own Internal Audit Manual (IAM).

75. The review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion. However, the review identified non-compliance with PSIAS and the IAM in:

- audit planning
- audit documentation
- clearing audit findings and reports
- management review.

76. It should also be noted that this review did not focus on specific internal audit work carried out for NRS. These findings were from a wider review of IAD's methodology. Nevertheless, we are required to report these findings to the Audit

and Risk Committee. IAD officers have advised they have discussed the findings of this Audit Scotland review with the NRS Accountable Officer and are taking action where required.

77. We reviewed the local NRS internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). We concluded that there are no specific internal audit reviews this year which relate directly to our work on the financial statements. However, we have considered other internal audit reports as part of our wider dimension audit work, including their report on '*IT Security Events & General Data Protection Regulation (GDPR) Arrangements*'.

Governance Statement

78. HM Treasury's Financial Reporting Manual (the FReM) states that NRS must prepare an annual governance statement within their annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives.

79. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken at NRS includes assurances provided to the Accountable Officer from the Executive Directors, via certificates of assurance and the completion of a risk matrix. This process provides assurances that the system of internal control which operated in each directorate operated effectively throughout the financial year. These assurances provide evidence underpinning the preparation of the governance statement, including key risks and issues the organisation is facing.

80. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents an accurate picture of governance arrangements and matters.

IT developments and cyber security

81. During our interim audit we met with the Director of IT Services to discuss the ongoing activity in this department. Key activity in recent months includes the following:

- An external review was completed in January to April 2018 to perform a range of IT health checks and penetration testing. Reports from this external review were then prepared for NRS from May 2018 onwards. This has resulted in NRS IT Services commissioning a programme of work named 'Common Platform'. This programme will focus on remedial action from the external review to prioritise to address the areas of improvement required.
- IT staff and teams have been re-structured to bring all staff under one single directorate and location.
- The recruitment process is ongoing to fill key IT posts. In recent months this has focused on recruiting two senior management posts with candidates being interviewed in August 2018. Getting the right people in place to drive forward improvements remains a priority for the department.
- A project is underway to consolidate several NRS networks inherited from legacy bodies. NRS are using an external supplier to complete an exercise to document the current network position and then provide a design for a single network. The NRS Architecture Review Board are due to review the proposed design in late August 2018 and actions will then be subsumed within the 'Common Platform' programme.

82. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

83. NRS have set up a project to achieve 'Cyber Essentials Basic' accreditation by the deadline of October 2018. There is a link between the remedial action planned under the 'Common Platform' programme and this cyber resilience work.

84. We acknowledge that NRS are looking to actively strengthen its IT services and cyber resilience arrangements. NRS should prioritise remedial work to ensure its IT infrastructure is improved to achieve Cyber Essentials accreditation by the end of October 2018.

General Data Protection Regulation

85. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

86. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in organisation's incurring significant fines.

87. GDPR was an area of focus for internal audit this year, who presented a report titled '*IT Security Events & General Data Protection Regulation (GDPR) Arrangements*' at the November 2017 Audit and Risk Committee meeting. This report provided 'reasonable assurance' overall. At the time of review, internal audit reported a 'high' risk highlighting that NRS are not recording information assets on the Scottish Government's Information Asset Register (IAR) template. It was also noted that NRS were due to update their records for information assets they held.

88. Since this time, management have advised the Scottish Government IAR template was analysed but the decision was taken that NRS required more detailed descriptions of their assets than this system allowed. Therefore, management have taken the decision to create their own tailored IAR which has now been populated and is being used in NRS' live operations. Information Asset Owners have also been allocated in each business area, who have responsibility for recording personal information within their area.

89. We expect internal audit to follow up on all prior year recommendation as part of their 2018/19 work. We have placed assurance on internal audit work in this area.

Part 5

Value for money



Main judgements

NRS have an adequate performance management framework in place, but with scope to develop performance indicators to improve reporting of activities to Board members.

Performance management

90. Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with NRS agree to undertake local work in this area.

91. NRS contributes to the Scottish Government's Culture, Europe and External Affairs portfolio which seeks to promote Scotland's interests at home and abroad and contributes to delivering Scotland's economic ambition by investing in Scotland's heritage, culture and events.

92. During 2017/18, NRS refreshed its strategy as part of the review of the organisation's governance structure and operations. A new Business Strategy has been created which sets out the priorities for the next five years (2018/19 – 2022/23). This Business Strategy was presented to the Executive Management Board in June 2018. This sets out key priorities for NRS, which include delivering a successful Census in 2021, providing improved digital and non-digital services to increase access to the information NRS hold; and improving ways of working, to better engage with customers and underpin services with best value.

93. As noted previously, NRS have implemented a new governance structure to drive forward their strategy and key priorities. This has also made the organisation more streamlined, from previously being arranged in a large number of portfolios, to now being structured into five directorates. The five-year business strategy is envisaged as a rolling approach, with year 1 set out in the 2018/19 NRS Annual Business Plan and forecast commitments in the following four years.

94. The performance of each NRS directorate and ongoing NRS projects are reviewed regularly by the Executive Management Board. This is done via progress reporting against the Annual Business Plan and key milestones.

95. We have concluded that NRS have an adequate performance management framework in place, but has scope to develop performance indicators to monitor and scrutinise performance against their business strategy more effectively.

Value for money is concerned with using resources effectively and continually improving services.



Refer to Appendix 1, Recommendation 4.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 we published a number of national reports as outlined in [Appendix 3](#). We consider the following publications relating to Central Government to be of interest to NRS:

- [*Common Agricultural Policy Futures programme: further update*](#) – June 2017
- [*Transport Scotland's ferry services*](#) – October 2017
- [*Early learning and childcare*](#) – February 2018
- [*Managing the implementation of the Scotland Acts*](#) – March 2018

97. We noted in our 2016/17 Annual Audit Report that NRS do not have a forum where relevant national reports are considered. We have since agreed with management that our local external audit team will highlight any relevant reports to the Audit and Risk Committee as and when required.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Accounting for non-current assets</p> <p>Our review of non-current assets found the following issues:</p> <p>Our recalculation of asset depreciation charges found several differences compared to those recorded on NCAR.</p> <p>We identified instances where asset useful lives started from when they were first recorded as assets under construction, not when they became fully operational.</p> <p>We found that a formal impairment review had not been undertaken for certain classes of non-current assets in 2017/18.</p>	<p>We advise the finance team to continue with their review of the NRS asset register, to ensure depreciation charges and valuation of assets are appropriately and consistently applied.</p> <p>We would also advise all material non-current assets to be considered for impairment each year, and this review should be documented going forward.</p> <p>Refer to: Page 9</p>	<p>Agreed action:</p> <p>We will continue to review our asset register to improve and verify the information recorded in it.</p> <p>Accounting standards require that we consider assets for indications that they may be impaired and, where indications exist, assess whether impairment has occurred. This consideration was carried out at the end of 2017/18 as part of our year-end procedures but was not formally documented. In future years, we will ensure that this exercise is documented so that it is available for review by the external auditor.</p> <p>Responsible officer:</p> <p>Steven Hanlon (Chief Finance Officer)</p> <p>Agreed date:</p> <p>March 2019 (and subsequent year-ends)</p>
2	<p>Heritage assets</p> <p>NRS have previously recognised a category of assets as 'antiques and works of art' when they would be more appropriately classified as heritage assets. This class of assets had a value of £2.1 million as at 31 March 2018. Amendments have been made to the final version of the accounts to re-classify these assets in accordance with FReM guidance.</p>	<p>It is common for other National collection bodies to maintain a fixed asset register, and then a separate register for heritage assets. We advise management to consider this approach to clearly separate heritage assets from other tangible non-current assets during the year-end accounting process, and to ensure heritage assets are disclosed separately in the accounts.</p> <p>Refer to: Page 10</p>	<p>Agreed action:</p> <p>Given the small number of heritage assets we recognise on our balance sheet (as a matter of accounting policy we only capitalise heritage assets where we acquire them in exchange for consideration; the majority of the heritage assets we hold are not purchased), the existing NCAR system is likely to continue to meet our needs. Heritage assets are recorded in a separate asset category to</p>


No. Issue/risk
Recommendation
Agreed management action/timing

			<p>allow them to be easily identified, and we will ensure that they are properly presented as heritage assets in the accounts in future years.</p> <p>Responsible officer: Steven Hanlon (Chief Finance Officer)</p> <p>Agreed date: March 2019 (and subsequent year-ends)</p>
<p>3</p>	<p>Contingent liabilities</p> <p>There is a new contingent liability disclosed in the 2017/18 annual report and accounts which relates to the leased buildings occupied by NRS. The lease arrangements require NRS to maintain the buildings and restore the premises to a specific condition on termination of the leases. There is therefore a possible obligation for NRS to make payments for works required at the end of the leases. The disclosure notes a value cannot be estimated for this contingent liability at this stage.</p>	<p>We advise management to consider this contingent liability in further detail, specifically when NRS are near the end of any of their lease arrangements. There is the potential for this contingent liability to be recognised as a provision in future accounting years, if the liability becomes more certain for restoration works required. NRS should ensure they provide a sufficient amount by the end of any lease term.</p> <p>Refer to: Page 10</p>	<p>Agreed action:</p> <p>We will consider whether a provision should be recognised in respect of each relevant lease at each future year end.</p> <p>Responsible officer: Steven Hanlon (Chief Finance Officer)</p> <p>Agreed date: March 2019 (and subsequent year-ends)</p>
<p>4</p>	<p>Performance indicators</p> <p>NRS do not formally use key performance indicators (KPIs) to monitor performance.</p> <p>This impacts on the quality of the Performance Report in the annual report and accounts, where performance and activities for the year are set out, but it is unclear how to gauge this performance with the absence of benchmarks or set targets. As such, the NRS Performance Report does not fully comply with FReM requirements.</p>	<p>We advise management to implement clear performance indicators to enhance NRS' performance framework. KPIs could then be reported regularly to the Executive Management Board or Strategic Board to scrutinise performance of the organisation.</p> <p>The Performance Report in the annual report and accounts could be revised next year to ensure full compliance with FReM requirements.</p> <p>Refer to: Page 10</p>	<p>Agreed action:</p> <p>Following the introduction of new governance structures in 2017/18, we are preparing a performance dashboard which will include KPIs to monitor operational business delivery performance against targets to improve service delivery and customer satisfaction. The aim is to complete this work through 2018/19, fully test and adapt the approach as required and have a full dashboard, with performance indicators, in operation by the start of 2019/20 financial year.</p> <p>Responsible officer: Linda Sinclair</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			(Director of Strategy and Business Services) Agreed date: March 2019
5	NRS website The organisation's website does not reflect the changes in governance structure this year and changes in Board members and senior officers. In addition, NRS do not publish a Register of Interests for senior officers on their website.	We recommend the 'Corporate Governance' section of the NRS website is updated, and a Register of Interests published to promote transparency. Refer to: Page 18	Agreed action: Work has been commissioned to update the NRS website with information on the new governance structure and changes in Board members and senior officers, alongside the publication of a Register of Interests for senior officers on the NRS website. Responsible officer: Linda Sinclair (Director of Strategy and Business Services) Agreed date: December 2018
Follow up of prior year recommendations			
b/f	Rise in temporary staff costs Temporary staff costs were £4.7m in 2016/17; a £2m increase compared to prior year. This is linked to recruitment of temporary posts for the Census programme and using IT contractors to fill specialist posts. A high use of contractors is an expensive method of running the organisation and may not be sustainable.	NRS should continue to review their recruitment of specialist posts and consider if using contractors/temporary staff is a sustainable option. We do, however, acknowledge that NRS operates under the constraints of Scottish Government policy. Business Leads should work closely with the Finance department to discuss the impact the use of temporary staff has on the NRS budget.	Partly actioned Temporary staff costs have reduced slightly this year to £4.630 million. This figure remains high for an organisation of NRS' size, with temporary staff costs accounting for 24% of overall staff costs. As previously noted, NRS continue to face challenges recruiting for specialist skills and require high cost contractors in areas such as ICT to fill vacancies. Revised action With the ongoing recruitment to NRS to deliver the restructuring commitments to enhance permanent capacity and capability of the organisation in key areas, and as part of NRS' 2018/19 efficiency savings programme, we are aiming to reduce the use of agency staff and contract staff via a new Resourcing Strategy across



No. **Issue/risk**

Recommendation

Agreed management action/timing

mainstream NRS. However, it is expected that the critical NRS Programmes, Census Programme in particular, with its short-term delivery horizons will continue to place significant demand for short term specialised resources, and that there will continue to be a call on agency and contract staff to resource this requirement. We are reviewing our workforce planning arrangements, with a view to improved reporting to enable better monitoring of the permanent/contract resources to ensure that we are using the right resourcing mechanism to meet our business needs, maximise best value and reflect the demands on the resourcing market, internally and externally.

Responsible officer:

Steven Hanlon
(Chief Finance Officer)

Agreed date:

March 2019

b/f **Efficiency savings**

Like many public sector bodies, NRS faces financial challenges going forward. In 2017/18 NRS plans to make efficiency savings totalling £1m (approximately 3% of gross revenue expenditure).

The achievement of savings will be crucial in maintaining financial balance over the coming years. While savings have been planned for 2017/18, we recommend NRS continue to develop robust savings plans for financial years 2018/19 and 2019/20.

NRS should ensure that robust savings plans continue to be developed for financial years 2018/19 and 2019/20.

Fully actioned

NRS achieved efficiency savings of £1.767 million against a target of £1 million in 2017/18. Financial forecasts have been developed for 2018/19 and 2019/20, and targeted savings will be further refined in the coming months.

CLOSED.

b/f **Role of the Board improvements**

We have provided the following recommendations in an effort to improve governance arrangements of the Management Board:

Partly actioned

Point 1: this action is superseded by recommendation 4 above.



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Our review of the role of the NRS Management Board found the following issues:</p> <ul style="list-style-type: none"> NRS do not make use of KPIs to report performance of their activities to Board members. NRS do not publish Board agendas and papers on their website. NRS do not formally record members' declarations of interest at each Board meeting. NRS do not have a clear structure to ensure policies are reviewed and approved by a suitable forum. 	<ul style="list-style-type: none"> NRS should develop performance indicators for each business area and significant projects, to ensure performance is monitored effectively against the organisation's objectives. NRS, where appropriate, should consider if publishing Board agendas and/or papers would be beneficial to provide members of the public with more information on their activities. Declarations of interest should be added to the standing agenda and minuted at each Board meeting. NRS should implement a process in their revised governance structure to ensure there is a clear method for reviewing and approving NRS policies and procedures. 	<p>Point 2: The Board agreed in 2016 that the publication of Board minutes was sufficient information to make publicly available. However, this position could be considered again in future.</p> <p>The remaining points have been actioned as part of the revised governance and Board arrangements.</p>
b/f	<p>Register of Interests</p> <p>NRS do not currently publish a Register of Interests for Board members and senior officers on their website. There is a risk that NRS are not declaring relevant interests of these officers in a transparent manner.</p>	<p>We recommend that officers ensure a full and accurate Register of Interests is disclosed on the NRS website.</p> <p>Interests should be declared in accordance with Scottish Government guidance.</p>	<p>Superseded</p> <p>This point is superseded by recommendation 5 above.</p> <p>CLOSED.</p>
b/f	<p>Review of national reports</p> <p>Audit Scotland national reports are not currently reviewed by any of the NRS committees or groups, to identify if any issues relate to the organisation.</p>	<p>We recommend that the Audit and Risk Committee periodically review national reports considered relevant to NRS.</p> <p>NRS officers should review recommendations raised in these national reports to identify if any action is required for the organisation.</p>	<p>Fully actioned</p> <p>We have since agreed with management that our local external audit team will highlight any relevant reports to the Audit and Risk Committee as and when required.</p> <p>CLOSED.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. Subject to the revisions required for heritage assets, we have deemed these to be appropriate for NRS.</p> <p>We carried out testing of trade receivables and trade payables balances to ensure they were posted to the correct financial year. With the exception of the adjusted misstatement noted at paragraph 22, there were no further matters to report.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>NRS receives income from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, per ISA 240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Carried out analytical procedures on income and expenditure streams.</p> <p>Substantively tested income and expenditure transactions focused on the areas of greatest risk.</p>	<p>Sample testing of income and expenditure transactions was satisfactory.</p> <p>We assessed the controls in place for both income and expenditure recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we concluded that controls were operating effectively.</p>
<p>3 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the account areas of accruals and provisions. This subjectivity represents an</p>	<p>Focused substantive testing during the financial statements audit of key judgemental areas.</p> <p>Reviewed accounting policies to ensure these are reasonable and comply with</p>	<p>Our substantive testing of both accruals and provisions did not identify any issues. NRS' annual leave accrual has been reasonably calculated to provide an accurate estimation of their liability at year-end.</p>

Audit Risk	Assurance procedure	Results and conclusions
increased risk of misstatement in the financial statements.	<p>the Financial Reporting Manual (FReM).</p> <p>Reviewed changes to the FReM to assess NRS' compliance with the latest guidance.</p>	<p>Changes to the FReM this year were minimal.</p> <p>There was late guidance issued by HM Treasury regarding trade union activity to be disclosed in the annual report and accounts. NRS have agreed to include the required disclosures from 2018/19 onwards, as data was not available at the time of drafting the 2017/18 accounts.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Governance re-structure</p> <p>NRS are undergoing an organisational re-structure in 2018. Management should ensure key governance policies and procedures are updated to reflect these changes, including:</p> <ul style="list-style-type: none"> • Terms of reference for new committees and groups • Scheme of delegation • Financial regulations <p>NRS should ensure the new governance arrangements are clearly documented and communicated to staff. There is risk of delays in decision making and action while these arrangements are being revised.</p>	<p>A review of updated key governance documents will be reviewed in detail during our 2018/19 audit planning work.</p> <p>Reviewed new organisational structure to assess whether clear reporting lines and accountability are in place.</p> <p>Ensured new governance arrangements reflect Scottish Government guidance, such as the Scottish Public Finance Manual.</p>	<p>NRS have been building responsibilities and delegation limits into their new governance structures, but the overall framework remains a work in progress. We will review key governance policies and schemes of delegation as part of our 2018/19 audit.</p> <p>The Executive Management Board (with supporting terms of reference) became operational from 1 January 2018.</p> <p>Changes to the NRS governance structure have been captured in key sections of the annual report and accounts, including changes to senior management in the Remuneration and Staff Report.</p> <p>The new governance structure has been communicated and published on NRS Connect for staff.</p>
<p>5 Cyber security</p> <p>The Scottish Government has issued a Public Sector Action Plan ('Cyber Essentials') which requires all public sector bodies to carry out work in relation to their cyber security arrangements. This will require NRS to carry out a comprehensive assessment and accreditation with Cyber Essentials to demonstrate measures are in place to reduce the risk of cyber attacks.</p>	<p>Monitored ongoing work within the IT department to ensure the Public Sector Action Plan is being followed.</p> <p>Met with the Director of IT Services to discuss IT risks and potential areas for external audit review during our appointment.</p>	<p>NRS have set up a project with the aim of achieving Cyber Essentials Basic by the October 2018 deadline. This will form part of their wider 'Common Platform' programme to implement remedial action to improve its IT infrastructure and cyber resilience.</p> <p>Refer to paragraph 81 of this report for further details on IT issues.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

National Records of Scotland

2017/18 Annual Audit Report

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